EPICOR SOFTWARE CORP
Form 10-Q
May 11, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission File No. 000-20740

EPICOR SOFTWARE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**33-0277592**
(State or other jurisdiction of	**(IRS Employer**
incorporation or organization)	**Identification No.)**

18200 Von Karman Avenue

Suite 1000

Irvine, California 92612

(Address of principal executive offices, zip code)

Registrant s telephone number, including area code: (949) 585-4000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes ¨ No x

As of May 1, 2009, there were 60,939,985 shares of common stock outstanding.

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Part I

FINANCIAL INFORMATION

Item 1 - Financial Statements:

EPICOR SOFTWARE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(Unaudited)

	March 31, 2009	December 31, 2008 *As Adjusted (Note 1)*
ASSETS		
Current assets:		
Cash and cash equivalents	$ 83,192	$ 89,764
Accounts receivable, net of allowance for doubtful accounts	79,093	90,624
Deferred income taxes	9,047	8,627
Inventory, net	4,094	5,068
Prepaid expenses and other current assets	12,845	11,064
Total current assets	188,271	205,147
Property and equipment, net	30,571	31,987
Deferred income taxes	42,891	42,858
Intangible assets, net	104,860	113,556
Goodwill	364,272	363,589
Other assets	13,128	14,061
Total assets	$ 743,993	$ 771,198
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 14,269	$ 13,913
Accrued compensation and benefits	14,508	21,035
Other accrued expenses	18,941	24,142
Current portion of long-term debt	11,437	10,169
Current portion of accrued restructuring costs	3,177	4,073
Current portion of deferred revenue	89,207	92,361
Total current liabilities	151,539	165,693
Long-term debt, less current portion	257,453	265,257
Accrued restructuring costs	4,944	5,412
Deferred revenue	253	319
Deferred income taxes and other income taxes	35,623	37,621
Other long-term liabilities	1,295	941

Total long-term liabilities	299,568	309,550
Commitments and contingencies (Note 12)		
Stockholders equity:		
Common stock	63	61
Additional paid-in capital	416,073	414,149
Less: treasury stock at cost	(19,041)	(18,458)
Accumulated other comprehensive loss	(6,878)	(4,094)
Accumulated deficit	(97,331)	(95,703)
Total stockholders equity	292,886	295,955
Total liabilities and stockholders equity	$ 743,993	$ 771,198

See accompanying notes to unaudited condensed consolidated financial statements.

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EPICOR SOFTWARE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE LOSS

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008 As Adjusted (Note 1)
Revenues:		
License	$ 13,177	$ 18,504
Consulting	31,452	31,402
Maintenance	46,866	46,156
Hardware and other	7,198	6,162
Total revenues	98,693	102,224
Cost of revenues	46,184	53,545
Amortization of intangible assets	8,405	7,066
Total cost of revenues	54,589	60,611
Gross profit	44,104	41,613
Operating expenses:		
Sales and marketing	18,090	21,378
Software development	12,406	13,026
General and administrative	14,191	11,952
In-process research and development		200
Restructuring charges	1,411	4,083
Total operating expenses	46,098	50,639
Loss from operations	(1,994)	(9,026)
Interest expense	(5,992)	(4,571)
Interest and other income (expense), net	(167)	847
Loss before income taxes	(8,153)	(12,750)
Income tax benefit	(6,525)	(4,725)
Net loss	$ (1,628)	$ (8,025)
Comprehensive loss:		
Net loss	$ (1,628)	$ (8,025)
Unrealized foreign currency translation gain (loss)	(2,662)	1,118

Net unrealized loss on derivative financials instruments, net of tax	(109)	
Net unrealized loss on defined benefit pension plan liability, net of tax	(13)	
Comprehensive loss	$ (4,412)	$ (6,907)
Net loss per share:		
Basic	$ (0.03)	$ (0.14)
Diluted	$ (0.03)	$ (0.14)
Weighted average common shares outstanding:		
Basic	58,985	57,898
Diluted	58,985	57,898

See accompanying notes to unaudited condensed consolidated financial statements.

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EPICOR SOFTWARE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008 *As Adjusted* *(Note 1)*
Operating activities		
Net loss	$ (1,628)	$ (8,025)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	10,489	8,939
Stock-based compensation expense	2,418	2,488
Provision for doubtful accounts	1,116	(357)
Provision for excess and obsolete inventory	104	122
Amortization of debt issuance fees	1,340	296
Amortization of long-term debt discount	1,923	1,790
Restructuring charges	1,411	4,083
Excess tax benefits from share-based payment arrangements	(6)	(617)
In-process research and development charge		200
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts receivable	9,437	15,153
Inventory	871	(2,730)
Prepaid expenses and other current assets	(2,436)	2,245
Other assets	(461)	810
Income taxes	(6,230)	(7,736)
Accounts payable	539	(556)
Accrued expenses	(9,571)	(15,119)
Accrued restructuring costs	(2,560)	(2,601)
Deferred revenue	(2,542)	1,750
Other long-term liabilities	141	(50)
Net cash provided by operating activities	4,355	85
Investing activities		
Purchases of property and equipment	(781)	(1,419)
Cash paid for acquisitions, net of cash acquired	30	(284,128)
Cash designated for acquisition		161,000
Net cash used in investing activities	(751)	(124,547)
Financing activities		
Proceeds from long-term debt		160,000
Principal payments on long-term debt	(8,502)	(1,538)
Debt issuance fees		(4,949)
Proceeds from exercise of stock options	9	1,009
Proceeds from employee stock purchase plan	244	326

Excess tax benefits from share-based payment arrangements	6	617
Purchase of treasury stock	(582)	(3,144)
Net cash provided by (used in) financing activities	(8,825)	152,321
Effect of exchange rate changes on cash	(1,351)	446
Net increase in cash and cash equivalents	(6,572)	28,305
Cash and cash equivalents at beginning of period	89,764	75,158
Cash and cash equivalents at end of period	$ 83,192	$ 103,463

See accompanying notes to unaudited condensed consolidated financial statements.

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EPICOR SOFTWARE CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2009

Note 1. Basis of Presentation

The accompanying Unaudited Condensed Consolidated Financial Statements included herein have been prepared by Epicor Software Corporation (the Company) in conformity with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) for interim financial information for reporting on Form 10-Q. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

In the opinion of management, the Unaudited Condensed Consolidated Financial Statements contain all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the Company s financial position, results of operations and cash flows.

The results of operations for the three months ended March 31, 2009 are not necessarily indicative of the results of operations that may be reported for any other interim period or for the entire year ending December 31, 2009. The Condensed Consolidated Balance Sheet at December 31, 2008 has been derived from the audited financial statements at that date (as adjusted for the effects of retrospective adoption of FSP APB 14-1 as discussed below), but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements, as permitted by SEC rules and regulations for interim reporting.

Inventory is comprised solely of finished goods. Accounts receivable is net of allowance for doubtful accounts at March 31, 2009 and December 31, 2008 of $8,340,000 and $7,686,000, respectively.

Change in Accounting Principle

Effective January 1, 2009, the Company changed its method of accounting for its convertible debt (Note 8) due to adopting Financial Accounting Standards Board (FASB) Staff Position (FSP) APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-1). As required by U.S. generally accepted accounting principles (GAAP), the change has been reflected in the financial statements through retrospective application of the change in accounting principle.

The accounting change impacted the carrying amount of our convertible debt (debt discount), required the Company to record additional interest expense related to the amortization of the debt discount and resulted in reclassification of debt issuance costs, deferred tax liabilities and additional paid in capital, as discussed in more detail in Note 8.

The effect of adoption on the Company s Condensed Consolidated Balance Sheets is as follows (*in thousands*):

Increase/(Decrease):	**March 31, 2009**	**December 31, 2008**
Other assets	$ (1,253)	$ (1,357)
Deferred income taxes and other income taxes	18,117	18,820
Long-term debt, less current portion	(48,125)	(50,048)
Additional paid-in capital	36,545	36,545
Accumulated deficit	7,791	6,674

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The effect of adoption on the Company s Condensed Consolidated Statements of Operations and Comprehensive Loss is as follows (*in thousands, except per share amounts*):

	March 31, 2009	March 31, 2008
Interest expense	$ 1,820	$ 1,673
Income tax benefit	703	639
Net loss	1,117	1,034
Net loss per share (basic and diluted)	$ 0.02	$ 0.02

Adoption had no impact on cash flows from operations, investing or financing.

Note 2. Basic and Diluted Net Loss Per Share

Net loss per share is calculated in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per Share. Under the provisions of SFAS No. 128, basic net loss per share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period, excluding shares of unvested restricted stock. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common and potential common shares outstanding during the period if their effect is dilutive.

The following table computes basic and diluted net loss per share (*in thousands, except per share amounts*):

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Net loss applicable to common stockholders	$ (1,628)	$ (8,025)
Basic:		
Weighted average common shares outstanding	62,103	60,138
Weighted average common shares of unvested restricted stock	(3,118)	(2,240)
Shares used in the computation of basic and diluted net loss per share	58,985	57,898
Net loss per share applicable to common stockholders basic and diluted	$ (0.03)	$ (0.14)

Due to net losses for all periods presented, the assumed exercise of stock options, employee stock purchase plan shares and unvested restricted stock had an anti-dilutive effect and therefore were excluded from the computation of diluted loss per share. On May 8, 2007, the Company closed an offering of $230 million aggregate principal amount of convertible senior notes (Note 8). The notes are only dilutive when the common stock price exceeds the conversion price of approximately $18.10 per share, and no shares have been included in the calculation of diluted net income per share as the conversion value did not exceed the principal amount of the notes.

Note 3. Acquisition

Acquisitions have been accounted for under the purchase method of accounting, in accordance with SFAS No. 141, Business Combinations. Any acquisition made after January 1, 2009 will be accounted for in accordance with SFAS No. 141, Business Combinations (revised 2007) (SFAS 141-R). Management is responsible for determining the fair value of the assets acquired and liabilities assumed. The fair value of the assets acquired and liabilities assumed represent management s estimate of fair value. The Company conducts an active mergers and acquisitions program. Acquisition candidates are determined to be viable if they meet the Company s stringent criteria which includes, but is not limited to, product and technology fit, culture, geography, revenue synergies and financial contribution. Because the software industry is consolidating, the purchase environment is competitive. Valuations are determined through a combination of earnings per share accretion models which assume certain cost synergies, internal rate of return calculations, discounted cash flow models, outside valuations and appraisals and market conditions. The results of the acquisitions are included in the accompanying Consolidated Statements of Operations from the respective acquisition dates forward.

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NSB Retail Systems PLC

On February 7, 2008, the Company completed its acquisition of NSB Retail Systems PLC (NSB). NSB designs, develops, markets and supports store and merchandising solutions to retailers of apparel, footwear and specialty merchandise. The acquisition of NSB provides an expanded portfolio of products and services for large and mid-sized specialty retailers and department stores, as well as a fully hosted, managed service offering designed for smaller retailers who are interested in rapid implementation via an on-demand versus on-premise offering.

Pursuant to the terms of the acquisition agreement, shareholders of NSB received £0.38 in cash for each NSB ordinary share. The value of the fully diluted share capital of NSB was approximately $311,845,000, not including transaction costs, based on the exchange rates in effect at the time the U.S. dollars were converted to pounds sterling for purposes of the transaction. The consideration payable under the agreement was funded by the Company with approximately $161,000,000 in existing cash balances, with the balance of the consideration being funded by drawing from funds available pursuant to the 2007 credit facility (Note 8).

The total purchase price for NSB is shown below (*in thousands*):

Cash	$ 311,845
Transaction costs	6,449
Total purchase price	$ 318,294

The acquisition of NSB is accounted for as a purchase business combination as defined in SFAS No. 141, Business Combinations. Under the purchase method of accounting, the purchase price was allocated to NSB s tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of February 7, 2008, with any excess being ascribed to goodwill. Management is primarily responsible for determining the fair values of these assets. The fair value of the assets acquired and liabilities assumed represent management s estimate of fair values. The Company adjusted goodwill by $14,233,000 since the original allocation on February 7, 2008, primarily related to finalizing the fair value of land and buildings which resulted in an increase in property and equipment of $4,105,000, and a reduction to deferred taxes of $16,593,000. See Note 4 for a discussion of goodwill and intangibles acquired.

The following table summarizes the allocation of the purchase price (*in thousands*):

Fair value of tangible assets acquired:	
Cash and cash equivalents	$ 33,181
Accounts receivable	18,274
Inventory	1,196
Property and equipment	16,038
Prepaid and other assets	4,720
Deferred tax assets	2,047
Total tangible assets acquired	75,456
Acquired technology	58,700
Acquired in-process research and development	200
Customer base	39,300
Trade name	3,500
Goodwill	198,240
Accounts payable and accrued expenses	(24,221)
Deferred revenue	(17,328)
Other long-term liabilities	(2,264)
Deferred tax liabilities	(13,289)
Net assets acquired	$ 318,294

In connection with the acquisition, the Company formulated a restructuring plan for the NSB operations. As a result, the Company recorded a liability of $4,524,000 for the costs related to involuntary employee terminations. This liability was included in the allocation of the purchase price in accordance with SFAS No. 141, Business

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Combinations and EITF Issue No. 95-3 Recognition of Liabilities in Connection with a Purchase Business Combination. Execution of the restructuring plan was completed as of December 31, 2008. NSB had previously recognized restructuring charges related to certain of its leased facilities and prior to employee severance. Included in assumed accounts payable and accrued expenses is $7,734,000 of prior restructuring obligations.

Included in the Company s operating results for the three months ended March 31, 2008 is a charge of $200,000 for the acquired in-process research and development projects related to the NSB acquisition. The in-process research and development projects arose from new products that were under development at the date of the acquisition and were expected to eventually lead to new products but had not yet established technological feasibility and for which no future alternative use was identified. The valuation of the in-process research and development projects was based upon the discounted expected future cash flows of the products over the products expected life, reflecting the estimated stage of completion of the projects and the estimate of the costs to complete the projects.

Goodwill is amortizable for tax purposes when determining foreign earnings subject to tax in the U.S. A portion of the goodwill is amortizable for tax in the foreign jurisdiction.

Pro Forma Information

Actual results of operations of NSB are included in the consolidated financial statements from the acquisition date of February 7, 2008. The unaudited pro forma statement of operations data of the Company set forth below gives effect to the acquisition by Epicor of NSB using the purchase method as if it occurred on January 1, 2008, and includes amortization of identified intangibles, interest expense on debt incurred to finance the acquisitions, elimination of amortization related to NSB intangibles not assumed in the acquisition, and the in-process research and development charge. This pro forma information is presented for illustrative purposes only and is not necessarily indicative of the combined financial results of operations for future periods or the financial results of operations that actually would have been realized had the acquisition occurred at that time (*in thousands, except per share data*).

	(Unaudited) **Three Months Ended March 31, 2008**
Total revenues	$ 107,940
Net loss	$ (12,618)
Net loss per share:	
Basic	$ (0.22)
Diluted	$ (0.22)

Note 4. Goodwill and Intangible Assets

In acquisitions accounted for using the purchase method, goodwill is recorded for the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and identified intangible assets acquired. SFAS No. 142, Goodwill and Other Intangible Assets, requires an annual review of goodwill and indefinite-lived intangibles for possible impairment. In accordance with SFAS No. 142, the Company performed its annual impairment review of its recorded goodwill in 2008, and determined that no impairment of goodwill existed because the estimated fair value of each reporting unit exceeded its carrying amount. The following table represents the balance and changes in goodwill by reporting unit as of and for the three months ended March 31, 2009 (*in thousands*):

	License	**Consulting**	**Maintenance**	**Total**
Balance as of December 31, 2008	$ 138,936	$ 68,835	$ 155,818	$ 363,589
NSB acquisition	701	246	624	1,571
Adjustment of tax liability	(114)	(76)	(191)	(381)
Foreign currency translation	(143)	(139)	(225)	(507)
Balance as of March 31, 2009	$ 139,380	$ 68,866	$ 156,026	$ 364,272

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The average amortization period for intangible assets are as follows:

	Average Amortization Periods
Acquired technology	5 years
Customer base	7 years
Trademark	5 years
Covenants not to compete	1-2 years

The following represents the change in intangible assets recorded during 2009, which includes additional change due to foreign currency translation (*in thousands*):

	Foreign Currency Translation
Acquired technology	$ (50)
Customer base	(630)
Trademark	(7)
Covenant not to compete	(50)
Total	$ (737)

Intangible assets are amortized over the estimated economic life of the assets. As of March 31, 2009, the Company has not identified any indicators of impairment associated with intangible assets.

The following table summarizes the components of intangible assets (*in thousands):*

	As of March 31, 2009			As of December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Acquired technology	$ 137,340	$ 81,221	$ 56,119	$ 137,390	$ 75,788	$ 61,602
Customer base	73,770	28,965	44,805	74,400	26,995	47,405
Trademark	13,789	9,853	3,936	13,796	9,247	4,549
Covenant not to compete	2,097	2,097		2,147	2,147	
Total	$ 226,996	$ 122,136	$ 104,860	$ 227,733	$ 114,177	$ 113,556

Amortization expense of the Company s intangible assets is included in cost of revenues for the three months ended March 31, 2009 and 2008 and was $8,405,000 and $7,066,000, respectively. Estimated amortization expense for the remainder of 2009, 2010, 2011, 2012, 2013 and thereafter is approximately $22,230,000, $27,465,000, $21,239,000, $19,633,000, $7,000,000 and $7,293,000, respectively.

Note 5. Restructuring Charges

For the three months ended March 31, 2009, the Company recorded restructuring charges of $1,411,000. These charges primarily relate to management severance. During the three months ended March 31, 2009, the Company made $2,588,000 in cash and share-based payments against reserves associated with its restructuring activities. The liability was further reduced by $189,000 of foreign currency translation and other adjustments.

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Note 6. Stock-Based Compensation

The following table sets forth the total stock-based compensation expense resulting from stock options and restricted stock awards included in the Company s Condensed Consolidated Statements of Operations and Comprehensive Loss (*in thousands*):

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Cost of consulting revenues	$ 204	$ 251
Cost of maintenance revenues	109	111
Sales and marketing	606	875
Software development	177	201
General and administrative	1,322	1,050
Total stock-based compensation expense	$ 2,418	$ 2,488

Net cash proceeds from the exercise of stock options were $9,000 and $1,009,000 for the three months ended March 31, 2009 and 2008, respectively. In accordance with SFAS 123-R, the Company presents excess tax benefits from stock-based compensation awards, if any, as financing cash flows rather than operating cash flows. For the three months ended March 31, 2009 and 2008, net cash provided by operating activities decreased by, and financing activities increased by, $6,000 and $617,000, respectively, related to excess tax benefits from exercise of stock-based awards. The tax benefit recognized in the statement of operations related to stock-based compensation for the three months ended March 31, 2009 and 2008 was $796,000 and $756,000, respectively. No share-based compensation was capitalized for the three months ended March 31, 2009 and 2008.

During the three months ended March 31, 2009, the Company granted 1,313,000 shares of performance-based restricted stock to employees for annual promotions and new hires for the 2009 and 2010 performance plan years under the terms of the Company s Performance Based Restricted Stock Plan (PBRSP). In December 2008, the Company s Board of Directors approved extending the PBRSP to 2010. All existing participants were granted the same number of shares for the 2010 plan year as they had in the 2009 plan year. The shares are subject to a vesting schedule and were granted pursuant to the terms of the Company s performance-based restricted stock plan. The recipients will vest in the restricted stock, or a portion thereof, in two equal, annual installments depending upon achievement of targets with respect to the Company s annual revenue and adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) for each of two performance years, 2009 and 2010. Restricted stock is held in escrow, and the Company s reacquisition right will not lapse until the shares are fully vested. Upon an employee s termination of service with the Company, shares that have not vested will be forfeited and automatically transferred to and reacquired by the Company. In addition, restricted shares that do not vest as a result of the Company s non-achievement with respect to annual revenue and adjusted EBITDA performance conditions for either performance year will be forfeited and automatically transferred to and reacquired by the Company.

The performance conditions for each year are independent of the performance conditions for the preceding years. Therefore, although compensation expense for all years will be measured based on the grant date fair value of the shares, the related compensation expense will be recognized separately in each year related only to the shares potentially earned in each year, assuming that it is considered to be probable that the shares will be earned each year. In addition, the compensation expense for each year is estimated and a pro rata amount is accrued on a quarterly basis. Quarterly compensation expense may include a cumulative adjustment resulting from changes in the estimated number of shares expected to be earned during that plan year.

On February 13, 2009, the Company s reacquisition right lapsed on 313,348 shares related to the performance-based restricted stock plan for the 2008 performance year. These shares are included in restricted stock at December 31, 2008. The lapse occurred following the Company s determination of its achievement of 2008 performance year performance conditions. The compensation expense related to these shares was included in the Consolidated Statements of Operations for the year ended December 31, 2008.

In addition to the above, the Company granted in February of 2009, 195,588 shares of fully vested stock to certain employees for services rendered during 2008. Compensation expense of $570,000 and $120,000 related to these shares was included in stock-based compensation and restructuring expense, respectively, in the Consolidated Statements of Operations for the year ended December 31, 2008.

The Company withholds, at the employee s election, a portion of the vested shares as consideration for the Company s payment of applicable employee income taxes. As of March 31, 2009, these repurchased shares are held in treasury and are available for future reissuance. In conjunction with the periodic vesting of the restricted stock and the annual vesting of performance based restricted stock, during the three months ended March 31, 2009, the Company acquired 166,000 shares of common stock at a value of $582,000.

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At March 31, 2009, there was approximately $4,873,000 of total unrecognized compensation expense related to performance based restricted stock. This cost is expected to be recognized over a weighted-average period of approximately two years. At March 31, 2009, there was approximately $4,314,000 of total unrecognized compensation expense related to other restricted stock grants. This cost is expected to be recognized over a weighted-average period of approximately one year. The compensation cost related to the performance-based restricted stock depends on the estimated number of shares that will vest, based on the probable outcome of the performance conditions. Therefore, the recognized compensation could vary significantly, depending on the outcome of those conditions. The Company is required at each reporting date to assess whether achievement of any performance condition is probable. Based on the Company s current assessment, the Company has recorded stock compensation expense related to performance-based restricted stock of $753,000 for three months ended March 31, 2009.

At March 31, 2009, there was approximately $28,000 of total unrecognized compensation expense related to unvested stock options. This cost is expected to be recognized over a weighted-average period of approximately three years.

The fair value of restricted stock that vested during the three months ended March 31, 2009 and 2008 was $1,541,000 and $9,085,000, respectively.

Stock options are granted with an exercise price equal to the fair market value on the date of grant, generally vest over four years and expire ten years from the date of grant. The weighted-average grant date fair value of options granted in fiscal 2009 was $1.96 per option. The Company estimates the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model was developed for use in estimating the value of traded options that have no vesting restrictions and are fully transferable, while the options issued by the Company are subject to both vesting and restrictions on transfer. In addition, option-pricing models require input of highly subjective assumptions including expected stock price volatility. The Company uses historical volatility data for expected volatility and estimates the expected life of its stock options based on the historical life of the Company s options. As there were no options granted for the three months ended March 31, 2008, no data is provided for stock option plans with respect to the weighted average assumptions used to value the option grants and the stock purchase plan rights. The grant date fair value of options granted during the three months ended March 31, 2009 was estimated using the following weighted average assumptions:

	Three Months Ended March 31, 2009
Expected life (years)	4.0
Risk-free interest rate	1.3%
Volatility	75.5%
Dividend rate	0.0%

There were 6,000 options exercised during the three months ended March 31, 2009. As of March 31, 2009, there were 1,555,000 options exercisable with a weighted average remaining contractual term, weighted average exercise price and aggregate intrinsic value of 4.3 years, $7.85 and $1,298,000, respectively. As of March 31, 2009, there were 1,573,000 options outstanding with a weighted average remaining contractual term, weighted average exercise price and aggregate intrinsic value of 4.4 years, $7.82 and $1,302,000, respectively. The Company issues new shares to satisfy stock option exercises and stock purchases under the Company s share-based plans. The aggregate intrinsic value above represents the total pretax intrinsic value (the difference between the Company s closing stock price on the last trading day of the quarter and the exercise price) multiplied by the number of shares that would have been received by the option holders had all option holders exercised their options on March 31, 2009. This amount changes based on the fair market value of the Company s stock.

Note 7. Revenue Recognition

The Company recognizes revenue in accordance with accounting principles generally accepted in the United States of America, principally:

Statement of Position (SOP) No. 97-2, Software Revenue Recognition, issued by the American Institute of Certified Public Accountants (AICPA) and interpretations;

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AICPA SOP No. 98-9, Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions;

Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements, issued by the United States Securities and Exchange Commission as amended by SAB No. 104;

Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) Issue No. 00-21 Revenue Arrangements with Multiple Deliverables; and

AICPA SOP No. 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts.

The Company enters into contractual arrangements with end-users of its products to sell software licenses, maintenance services and consulting services, either separately or various combinations thereof. For each arrangement, revenues are recognized when persuasive evidence of an arrangement exists, the fees to be paid by the customer are fixed or determinable, collection of the fees is probable, delivery of the product has occurred, vendor-specific objective evidence (VSOE) of the fair value of any undelivered elements exists and no other significant obligations on the part of the Company remain.

For multiple-element software arrangements, the Company accounts for the software license component using the residual method. The residual method generally requires recognition of software license revenue in a multiple-element arrangement once all software products have been delivered and accepted by the customer and the only undelivered elements are maintenance services and/or consulting services. The fair value of the maintenance services is determined based on VSOE of fair value and is deferred and recorded ratably over the maintenance service period. Fair value for any related consulting services is determined by VSOE of fair value and generally recognized as the services are performed. After any required fair value allocations to the undelivered maintenance and/or consulting services elements, the residual contractual consideration is allocated to the license associated with the software products sold as part of the transaction. The Company s maintenance services VSOE of fair value is determined by reference to the price the Company s customers are required to pay for the services when sold-separately (i.e. the maintenance service fees paid by the Company s customers upon renewal). VSOE of fair value for consulting services is determined by reference to the price the Company s customers are required to pay for such services when sold separately, or when sold independent of any of the Company s other product or service offerings.

In certain instances, the Company enters into arrangements that include two or more non-software products or services such as hardware and related services. Such arrangements are divided into separate units of accounting provided that the delivered item has stand-alone value and there is objective and reliable evidence of the fair value of the undelivered items. The total arrangement fee is allocated to the undelivered elements based on their fair values and to the initial delivered elements using the residual method. Revenue is recognized separately, and in accordance with the Company s revenue recognition policy, for each element.

License Revenues: Amounts allocated to software license revenues sold directly by the Company are recognized at the time of shipment of the software when fair value for all undelivered elements exists and all the other revenue recognition criteria discussed above have been met.

Revenues on sales made to the Company s resellers are recognized upon shipment of the Company s software to the reseller when the reseller has an identified end-user and all other revenue recognition criteria noted above are met. Under limited arrangements with certain distributors, all the revenue recognition criteria have been met upon delivery of the product to the distributor and, accordingly, revenues are recognized at that time. The Company does not offer a right of return on its products.

Consulting Service Revenues: Consulting service revenues are comprised of consulting and implementation services and, to a limited extent, training. Consulting services are generally sold on a time-and-materials basis and can include services ranging from software installation to data conversion and building non-complex interfaces to allow the software to operate in integrated environments. Consulting engagements can last anywhere from one day to several months and are based strictly on the customer s requirements and complexities and are independent of the functionality of the Company s software. The Company s software, as delivered, can generally be used by the customer for the customer s purpose upon installation. Further, implementation and integration services provided are generally not essential to the functionality of the software, as delivered, and do not result in any material changes to the underlying software code. Services are generally separable from the other elements under the same arrangement since the performance of the services are not essential to the functionality of the other elements of the

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transaction, the services are described in the contract such that the total price of the arrangement would be expected to vary as the result of the inclusion or exclusion of the services, and VSOE of fair value exists for the services based on sold separately data. If, in the services element of the arrangement the Company performs significant production, modification or customization of its software, the Company applies the provisions of SOP No. 81-1, otherwise SOP No. 97-2 applies. For services performed on a time-and-material basis, revenue is recognized when the services are performed and billed. On occasion, the Company enters into fixed fee arrangements or arrangements in which customer payments are tied to achievement of specific milestones. In fixed fee arrangements, revenue is recognized as services are performed as measured by hours incurred to date, as compared to total estimated hours to be incurred to complete the work. In milestone achievement arrangements, the Company recognizes revenue as the respective milestones are achieved.

The Company has recorded unbilled consulting revenues totaling $2,497,000 and $1,933,000 at March 31, 2009 and December 31, 2008, respectively. These unbilled revenues represent consulting services performed during the last few business days of the quarter but not billed until the following month. The Company cuts-off consulting billing prior to the end of each month. Unbilled consulting revenue is recorded in accounts receivable in the accompanying Consolidated Balance Sheets.

Maintenance Service Revenues: Maintenance service revenues consist primarily of fees for providing unspecified software upgrades on a when-and-if-available basis and technical support over a specified term, which is typically twelve months. Maintenance revenues are typically paid in advance and are recognized on a straight-line basis over the term of the contract.

Hardware Revenues: In some cases, the Company resells third party hardware systems and related peripherals as part of an end-to-end solution requested by its customers. Hardware revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collection is considered probable. The Company considers delivery to occur when the product is shipped and title and risk of loss have passed to the customer.

Software License Indemnification: The Company s standard software license agreements contain an infringement indemnity clause under which the Company agrees to defend, indemnify and hold harmless our customers and business partners against liability and damages arising from third party claims that the Company s products violate or infringe the intellectual property rights of others. These clauses constitute a form of guarantee that is subject to the disclosure requirements, but not the initial recognition or measurement provisions, of FASB Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. The Company has never lost a third party infringement claim, and, to date, the Company s costs to defend such claims and/or lawsuits have been insignificant. Although it is possible that in the future third parties may claim that the Company s current or future software solutions infringe upon their intellectual property, a maximum obligation arising out of these types of agreements is not explicitly stated and, therefore, the overall maximum amount of these obligations cannot be reasonably estimated.

Sales taxes collected from customers are recorded on a net basis.

Note 8. Credit Facility and Convertible Senior Notes

For the quarter ended March 31, 2009, the Company made mandatory principal payments of $2,500,000 and voluntary principal payments of $6,000,000 against the term loan from discretionary funds.

At March 31, 2009, the Company had $86.5 million outstanding under the term loan, with principal payments due in 2009, 2010, 2011, 2012 and 2013 of $7,500,000, $15,000,000, $20,000,000, $37,500,000 and $6,500,000, respectively, and no outstanding borrowing under the revolving facility under the 2007 Credit Facility. As a result, the Company had unused borrowing capacity of $100 million through the revolving facility available under the 2007 credit facility. At March 31, 2009, the Company was in compliance with all covenants included in the terms of the 2007 credit facility, and the weighted average interest rate applicable to the 2007 credit facility was 4.29%.

The term loan portion of the 2007 credit facility is subject to interest rate swap agreements to convert a portion of the Company s interest rate variability to a fixed rate basis as required under the 2007 credit facility (Note 9).

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Convertible Senior Notes

On May 8, 2007, the Company closed an offering of $230 million aggregate principal amount of 2.375% convertible senior notes due in 2027. The notes are unsecured and pay interest semiannually at a rate of 2.375% per annum until May 15, 2027. The notes are convertible into cash or, at the Company s option, cash and shares of the Company s common stock, at an initial conversion rate of 55.2608 shares of common stock per $1,000 principal amount of notes, which is equivalent to an initial conversion price of approximately $18.10 per share. Pursuant to the terms of the notes, the principal amount of the notes may be settled in cash and only the amount of conversion value, as defined, in excess of the principal amount of the notes may be settled in cash or shares. The initial conversion price represents a 30% premium over the last reported sale price of the Company s common stock prior to the offering that began on May 2, 2007, which was $13.92 per share.

Effective January 1, 2009, the Company adopted FSP APB 14-1, and retroactively applied this change to all periods presented herein. This standard requires the Company to change the previous accounting method for its $230 million convertible senior notes. Accordingly, the Company recorded a $61,752,000 debt discount as additional paid in capital, as of the notes issuance date of May 15, 2007. At March 31, 2009, the debt discount was $48,126,000. The Company has $230,000,000 in principal due under the convertible debt, for a net carrying amount of $181,874,000.

The Company is amortizing the debt discount through the date at which the Company can begin to redeem the notes, which is May 15, 2014. The effective interest rate on the liability component was 7.35%, which was based on market conditions at the time the debt was entered into. The Company recognized interest expense of $3,289,000 and $3,156,000 related to the convertible debt for the three months ended March 31, 2009 and 2008, respectively, of which $1,366,000 is contractual.

The Company reclassified $2,155,000 of previously capitalized debt issuance fees attributable to the equity portion of the convertible debt as additional paid in capital. The Company also recorded deferred tax liability of $23,049,000 as additional paid in capital related to the debt discount and reclassified debt issuance fees.

Note 9. Interest Rate Swap

On April 18, 2008, March 11, 2009 and March 12, 2009, the Company entered into interest rate swap agreements to convert a portion of the Company s interest rate variability to a fixed rate basis as required under the 2007 credit facility. The interest rate swaps are cash flow hedges and qualify for hedge accounting treatment pursuant to SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. The critical terms of the instruments include currency, notional amount, formula for computing net settlements, benchmark rate, interest period and interest payment dates, as well as other terms. The Company confirms effectiveness each reporting period. If the instruments are not effective, the changes in fair value would be included in the Company s Condensed Consolidated Statements of Operations.

As of March 31, 2009, the interest swaps are effective and changes in the fair value of the interest rate swaps are reflected in the carrying value of the interest rate swap on the Company s Condensed Consolidated Balance Sheets. The differential to be paid or received on the interest rate swap agreements is accrued and recognized as an adjustment to interest expense as interest rates change. Following is a summary of the interest rate swaps (rates are inclusive of the applicable interest rate margin of 2.25% under the 2007 credit agreement):

Contract Date	Notional Amount	Interest Period Covered	Rate
04/18/08	$ 20 million	06/30/08 3/31/09	5.420%
04/18/08	$ 15 million	06/30/08 9/30/09	5.445%
04/18/08	$ 15 million	06/30/08 9/30/09	5.400%
03/11/09	$ 20 million	03/31/09 03/31/11	3.940%
03/12/09	$ 15 million	09/30/09 03/31/11	4.140%
03/12/09	$ 5 million	09/30/09 09/30/10	4.300%

At March 31, 2009 the effective interest rate for the notional amounts covered by the swap agreements as of such date was 4.83% (inclusive of 2.25% interest rate margin under the 2007 credit agreement).

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As of March 31, 2009, the interest rate swap resulted in a net liability of $709,000, which was included in accrued expenses and other long-term liabilities. The change in market value during fiscal 2009 was recorded as an unrecognized loss in the accumulated other comprehensive loss section of stockholders equity in the Company s Condensed Consolidated Balance Sheets as the swaps were effective at March 31, 2009.

The Company does not hold or issue interest rate swap agreements for trading purposes. In the event that a counter-party fails to meet the terms of the interest rate swap agreement, the Company s exposure is limited to the interest rate differential. The Company manages the credit risk of counterparties by dealing only with institutions that the Company considers financially sound. The Company considers the risk of non-performance to be remote.

On January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements*,* for financial assets and liabilities. SFAS 157 establishes a three-tier hierarchy for fair value measurements, which prioritizes the inputs used in measuring fair value as follows:

Level 1 - observable inputs such as quoted prices for identical instruments in active markets.

Level 2 - inputs other than quoted prices in active markets that are observable either directly or indirectly through corroboration with observable market data.

Level 3 - unobservable inputs in which there is little or no market data, which would require the Company to develop its own assumptions.

The Company s interest rate swap is required to be measured at fair value on a recurring basis. The fair value of the interest rate swap is determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Therefore, the Company has categorized the interest rate swap as Level 2. The following table presents the Company s financial liabilities as of March 31, 2009 measured at fair value on a recurring basis (*in thousands*):

	Fair value measurements using		
	Level 1	**Level 2**	**Level 3**
Interest rate swap liability	$	$ 709	$

Note 10. Provision for Income Taxes

The Company adopted FASB Interpretation (FIN) 48, Accounting for Uncertainty in Income Taxes (FIN 48) on January 1, 2007. At March 31, 2009 and December 31, 2008, the Company had $18,142,000 and $19,629,000, respectively, of gross unrecognized tax benefits, of which $8,539,000 and $8,267,000, respectively, would reduce the effective tax rate if recognized. The change in gross unrecognized tax benefits during the first quarter of 2009 is primarily the result of lapse in statutes in foreign jurisdictions, changes in the Company s estimate of expected settlement of certain unrecognized tax benefits in foreign jurisdictions, and foreign exchange gains and losses. The tax benefit for the first quarter of 2009 includes a $1,524,000 benefit related to prior periods for the reduction of reserves for uncertain tax positions. The Company determined the adjustment is not material to previously reported financial statements or the expected full year 2009 financial statements and, therefore, recorded the correction in the first quarter of 2009. The Company s continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of March 31, 2009, the Company has approximately $766,000 of accrued interest and penalties related to uncertain tax positions.

The tax years 1997 to 2008 remain open to examination by Federal and state taxing jurisdictions and the tax years 2002 to 2008 remain open to examination by foreign jurisdictions. The Company is currently under examination in various foreign locations. The Company anticipates effectively settling the uncertain tax positions relating to certain foreign jurisdictions in the next twelve months. The Company does not believe the amount settled will materially differ from the unrecognized tax benefit as of March 31, 2009.

The Company believes it has adequately provided for income tax issues not yet resolved with federal, state and foreign tax authorities. Although not probable, the most adverse resolution of these issues could result in additional charges to earnings in future periods.

The provision for income taxes consists of provisions for federal, state and foreign income taxes. The Company operates in an international environment with significant operations in various locations outside the U.S. Accordingly, the consolidated income tax rate is a composite rate reflecting the earnings in the various locations and the applicable rates.

The Company recorded an income tax benefit of $6,525,000 and $4,725,000 for the three months ended March 31, 2009 and 2008 respectively. The effective income tax rates were 80.0% and 37.1% for the three months ended

March 31, 2009 and 2008, respectively. The 2009 effective tax rate differs from the statutory U.S. federal income tax rate of 35% due to earnings in foreign jurisdictions taxed at different rates, state taxes, permanent differences between GAAP pre-tax income and taxable income, and releases of reserves for uncertain tax positions primarily related to statute closures and expected audit settlements in foreign jurisdictions. The 2008 effective tax rate differs from the statutory U.S. federal income tax rate of 35% due to earnings in foreign jurisdictions taxed at different rates, state taxes, permanent differences between GAAP pre-tax income and taxable income.

The Company has provided a valuation allowance on certain foreign deferred tax assets and intends to maintain a valuation allowance until sufficient positive evidence exists to support its reversal. In general, any realization of these deferred tax assets will reduce the Company s effective rate in future periods. Future releases of the valuation allowance related to the Scala and NSB acquisitions will be accounted for as a reduction in income tax expense pursuant to SFAS No. 141 (revised 2007), Business Combinations, or SFAS No. 141(R). Effective January 1, 2009, SFAS 141(R) provides that any reduction to the valuation allowance established in purchase accounting is to be accounted for as a reduction in income tax expense.

In accordance with FIN 18, Accounting for Income Taxes in Interim Periods, (FIN 18) the Company makes its best estimate of the tax rate expected to be applicable for the full fiscal year. The rate so determined is used to provide for income taxes in an interim period. Absent a material or discrete adjustment to deferred taxes, the deferred tax accounts are adjusted at year end.

The Company regularly reviews the deferred tax assets for recoverability and the need for a valuation allowance. The Company analyzes both negative and positive evidence, and the strength of such evidence. This analysis includes assessment by jurisdiction of forecasted and historic financial performance and taxable income, performance compared to profit and revenue targets, strength or weakness of revenue generating functions, expense forecasts, and other factors. The valuation allowance will continue to be evaluated over future quarters.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the formulation of estimates and assumptions that affect the reported amount of tax-related assets and liabilities and income tax provisions. The Company assesses the recoverability of the deferred tax assets on an ongoing basis, analyzing all available positive and negative evidence to determine whether, based on such evidence, it is more likely than not that some portion or all of the Company s net deferred assets will be realized in future periods. This assessment requires significant judgment. In addition, the Company has made estimates involving current and deferred income taxes, tax attributes relating to the interpretation of various tax laws and historical bases of tax attributes associated with certain tangible and intangible assets. Failure to achieve the Company s operating income targets may change its assessment regarding the recoverability of the net deferred tax assets and such change could result in a valuation allowance being recorded against some or all of the deferred tax assets. Any increase in a valuation allowance would result in additional income tax expense, lower stockholders equity and could have a significant impact on the Company s earnings in future periods.

U.S. income taxes were not provided for on undistributed earnings from certain non-U.S. subsidiaries. Those earnings are considered to be permanently reinvested in accordance with Accounting Principles Board (APB) Opinion 23.

Note 11. Segment Information

In accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, the Company has prepared operating segment information to report components that are evaluated regularly by the Company s chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company s reportable operating segments include software licenses, consulting, maintenance and hardware and other. Currently, the Company does not separately allocate amortization of intangible assets or operating expenses to these segments, nor does it allocate specific assets to these segments. Therefore, the segment information reported includes only revenues, cost of segment revenues and segment gross profit. Excluded from the table below is amortization of intangible assets for the three months ended March 31, 2009 and 2008 of $8,405,000 and $7,066,000, respectively.

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Operating segment data for the three months ended March 31, 2009 and 2008 is as follows (*in thousands*):

	Licenses	Consulting	Maintenance	Hardware and Other	Total
Three months ended March 31, 2009:					
Revenues	$ 13,177	$ 31,452	$ 46,866	$ 7,198	$ 98,693
Cost of revenues	2,429	26,414	10,966	6,375	46,184
Gross profit	$ 10,748	$ 5,038	$ 35,900	$ 823	$ 52,509
Three months ended March 31, 2008:					
Revenues	$ 18,504	$ 31,402	$ 46,156	$ 6,162	$ 102,224
Cost of revenues	3,578	31,957	11,590	6,420	53,545
Gross profit	$ 14,926	$ (555)	$ 34,566	$ (258)	$ 48,679

Note 12. Commitments and Contingencies

Litigation

The Company is subject to other legal proceedings and claims in the normal course of business. The Company is currently defending these proceedings and claims, and anticipates that it will be able to resolve these matters in a manner that will not have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

Guarantees

The Company from time to time enters into certain types of contracts that contingently require the Company to indemnify parties against third-party claims. These contracts primarily relate to: (i) divestiture and acquisition agreements, under which the Company may provide customary indemnifications to either (a) purchasers of the Company s businesses or assets; or (b) entities from whom the Company is acquiring assets or businesses; (ii) certain real estate leases, under which the Company may be required to indemnify property owners for environmental and other liabilities and other claims arising from the Company s use of the applicable premises; (iii) certain agreements with the Company s officers, directors and employees, under which the Company may be required to indemnify such persons for liabilities arising out of their relationship with the Company; and (iv) Company license and consulting agreements with its customers, under which the Company may be required to indemnify such customers for intellectual property infringement claims and other claims arising from the Company s provision of services to such customers.

Note 13. Employee Benefits

As part of the NSB acquisition (Note 3), the Company assumed a liability for a defined benefit pension plan that provides pension benefits for certain NSB employees upon retirement. The plan was closed to new entrants prior to the acquisition, and the plan participants are no longer employed by the Company.

The net periodic benefit cost of the Company s defined benefit pension plan included the following components (*in thousands*):

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Interest cost on projected benefit obligation	$ 75	$ 68
Expected return on plan assets	(51)	(48)

Net periodic benefit cost	$	24	$	20

During the three months ended March 31, 2009 and 2008, contributions of approximately $54,000 and $50,000, respectively, were made to the Company s defined benefit pension plan. The Company expects to contribute approximately $159,000 for the remainder of the year to its defined benefit pension plan.

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Note 14. New Accounting Pronouncements

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS 162 will become effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company does not expect the adoption of SFAS 162 to have a material effect on its consolidated results of operations and financial condition.

In May 2008, the FASB issued FASB Staff Position (FSP) No. APB 14-1 Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-1). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer s non-convertible debt borrowing rate. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 on a retroactive basis, and was adopted by the Company on January 1, 2009. The results of the adoptions of FSP APB 14-1 have been disclosed in Note 1 and Note 8.

In April 2008, the FASB issued FASB Staff Position (FSP) FAS No. 142-3, Determination of the Useful Life of Intangible Assets. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement 142, Goodwill and Other Intangible Assets. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement 141 (Revised 2007), Business Combinations, and other U.S. generally accepted accounting principles (GAAP). This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The adoption of this standard did not have a material effect on its consolidated results of operations and financial condition.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS 161). The Statement requires companies to provide enhanced disclosures regarding derivative instruments and hedging activities. It requires companies to better convey the purpose of derivative use in terms of the risks that such company is intending to manage. Disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect a company s financial position, financial performance, and cash flows are required. This Statement retains the same scope as SFAS 133 and is effective for fiscal years and interim periods beginning after November 15, 2008, or January 1, 2009 for the Company. The adoption of this standard did not have a material effect on its consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141, Business Combinations (revised 2007) (SFAS 141-R), which provides greater consistency in the accounting and financial reporting of business combinations. It requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose the nature and financial effect of the business combination. SFAS 141-R is effective for acquisitions in fiscal years beginning after December 15, 2008, or January 1, 2009 for the Company. Effective January 1, 2009, SFAS 141-R provides that any reduction to the valuation allowance established in purchase accounting is to be accounted for as a reduction in income tax expense.

In December 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160). This Statement amends Accounting Research Bulletin No. 51, Consolidated Financial Statements, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years beginning after December 15, 2008, or January 1, 2009 for the Company. The adoption of this standard did not have any effect on its consolidated results of operations and financial condition.

On February 15, 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 (SFAS 159). Under this standard, the Company may elect to report financial instruments and certain other items at fair value on an investment-by-investment basis with changes in value reported in earnings. This election is irrevocable. SFAS 159 provides an opportunity to mitigate volatility in reported earnings that is caused by measuring hedged assets and liabilities that were previously required to use a different accounting method than the related hedging contracts when the complex provisions of SFAS 133, Accounting for Derivative Instruments and Hedging Activities, hedge accounting are not met. SFAS 159 is effective for years beginning after November 15, 2007. Early adoption within 120 days of the beginning of the Company s 2007 fiscal year is permissible, provided the Company has not yet issued interim financial statements for 2007 and has adopted SFAS 157, Fair Value Measurements (SFAS 157). Adoption of this standard did not have a material effect on its consolidated results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), which clarifies the definition of fair value whenever another standard requires or permits assets or liabilities to be measured at fair value. Specifically, the standard clarifies that fair value should be based on the assumptions market participants would use when pricing the asset or liability, and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS 157 does not expand the use of fair value to any new circumstances, and must be applied on a prospective basis except in certain cases. The standard also requires expanded financial statement disclosures about fair value measurements, including disclosure of the methods used and the effect on earnings.

In February 2008, FSP FAS No. 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2) was issued. FSP 157-2 defers the effective date of SFAS 157 to fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Examples of items within the scope of FSP 157-2 are nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods), and long-lived assets, such as property, plant and equipment and intangible assets measured at fair value for an impairment assessment under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The partial adoption of SFAS 157 on January 1, 2008 with respect to financial assets and financial liabilities recognized or disclosed at fair value in the financial statements on a recurring basis did not have a material effect on consolidated results of operations and financial condition. The adoption of this standard did not have a material effect on its consolidated results of operations and financial condition.

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Item 2 - Management s Discussion and Analysis of Financial Condition and Results of Operations:

Forward Looking Statements Safe Harbor

Certain statements in this Quarterly Report on Form 10-Q are forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, that involve risks and uncertainties. Any statements contained herein (including without limitation statements to the effect that the Company or Management estimates, expects, anticipates, plans, believes, projects, continues, should, may, or will or statements concerning potential or opportunity or vari comparable terminology or the negative thereof) that are not statements of historical fact should be construed as forward-looking statements including statements about (i) the Company s future financial results, (ii) the impact of new accounting pronouncements, (iii) the Company s product development plans, (iv) the Company s capital spending, (v) the Company s future cash flow from operations, (vi) sufficient sources of financing to continue operations for next twelve months and to satisfy contractual obligations and commercial commitments, (vii) the effect of current legal proceedings, (viii) payment of obligations related to the Company s restructurings, (ix) the future use of forward or other hedging contracts, (x) the future impact of recent acquisitions on the Company, (xi) future investments in product development, (xii) schedule of amortization of intangible assets, (xiii) future impact of valuation allowance review and (xiv) future expense levels. Actual results could differ materially and adversely from those anticipated in such forward looking statements as a result of certain factors, including the factors listed at pages 36 to 45. Because these factors may affect the Company s operating results, past performance should not be considered an indicator of future performance and investors should not use historical results to anticipate results or trends in future periods. The Company undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements. Investors should carefully review the risk factors described below and in other documents the Company files from time to time with the Securities and Exchange Commission, including the Company s Annual Report on Form 10-K.

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto.

Overview

Epicor Software Corporation (Epicor or the Company) designs, develops, markets and supports enterprise application software solutions and services primarily for use by midsized companies and the divisions and subsidiaries of Global 1000 enterprises, which generally consist of companies with annual revenues between $25 million and $1 billion, and emerging enterprises, which generally consist of rapidly growing businesses with annual revenues under $25 million. Epicor s solutions are designed to help companies focus on their customers, suppliers, partners, and employees through enterprise-wide management of resources and information. This collaborative focus distinguishes the Company from conventional enterprise resource planning (ERP) vendors, whose primary focus is improving internal business processes and efficiencies. The Company believes that by automating and integrating information and critical business processes across their entire value chain, enterprises can improve not just their bottom line, but also their top line, allowing them to compete more effectively in today s increasingly global economy.

The financial market crisis has continued to disrupt credit and equity markets worldwide and has led to continued weakening in the global economic environment. The effect of the continued weakening of the global economy and the fallout from the financial market crisis is expected to continue to challenge Epicor s ability to sell software licenses and may negatively impact demand for our consulting services. The adverse economic environment has also increased the difficulty of forecasting revenues, as a decrease in license revenue may lead to a decrease in consulting revenue in the same or subsequent quarters. Lower license revenue may also decrease maintenance revenue since maintenance fees for new product licenses are directly related to software license sales. In response to this difficult economic environment, Epicor took steps in November 2008 to reduce its headcount and lower expenses. The Company continues to monitor the economic situation, the business environment and the Company s outlook.

Total revenues for the three months ended March 31, 2009, decreased 3.5% to $98.7 million, compared to $102.2 million for the three months ended March 31, 2008. Net license revenue decreased by 28.8% to $13.2 million for the three months ended March 31, 2009, when compared to net license revenue of $18.5 million for the three months ended March 31, 2008. Consulting revenue was $31.5 million for the three months ended March 31, 2009, flat when compared to consulting revenue of $31.4 million for the three months ended March 31, 2008. Maintenance revenue for the three months ended March 31, 2009 was $46.8 million, an increase of 1.5% compared to

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maintenance revenue of $46.1 million for the three months ended March 31, 2008. Hardware and other revenue for the three months ended March 31, 2009 was $7.2 million, an increase of 16.8% compared to hardware and other revenue of $6.2 million for the three months ended March 31, 2009. See discussion in Results of Operations for more detailed information.

Overall gross margin was 44.7% for the three months ended March 31, 2009, compared to 40.7% during the same period in 2008, up primarily due to decreased cost of sales, including a decrease in cost of consulting during the period.

Cash flows from operations were $4.4 million during the three months ended March 31, 2009, compared to 2008 cash flows from operations of $0.1 million. Cash flows increased despite the net loss for the three months ended March 31, 2009, compared to 2008. This is due to an increase in amortization, an increase in provision for doubtful accounts in the current year and an increase in debt fee amortization.

Critical Accounting Policies

The consolidated financial statements are prepared in conformity with United States of America generally accepted accounting principles (GAAP). As such, management is required to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The significant accounting policies which are most critical to aid in fully understanding and evaluating reported financial results include the following:

Revenue Recognition

The Company enters into contractual arrangements with end-users that may include licensing of the Company s software products, product support and maintenance services, consulting services, resale of third-party hardware or various combinations thereof, including the sale of such products or services separately. The Company s accounting policies regarding the recognition of revenue for these contractual arrangements is fully described in Note 7 of Notes to Consolidated Financial Statements.

The Company considers many factors when applying accounting principles generally accepted in the United States of America related to revenue recognition. These factors include, but are not limited to:

- The actual contractual terms, such as payment terms, delivery dates and pricing of the various product and service elements of a contract;
- Availability of products to be delivered;
- Time period over which services are to be performed;
- Creditworthiness of the customer;
- The complexity of customizations and integrations to the Company s software required by service contracts;
- The sales channel through which the sale is made (direct, VAR, distributor, etc.);
- Discounts given for each element of a contract;

Any commitments made as to installation or implementation go live dates and

Whether vendor specific objective evidence of the fair value of undelivered elements exists.

Each of the relevant factors is analyzed to determine its impact, individually and collectively with other factors, on the revenue to be recognized for any particular contract with a customer. Management is required to make judgments regarding the significance of each factor in applying the revenue recognition standards, as well as whether or not each factor complies with such standards. Any misjudgment or error by management in its evaluation of the factors and the application of the standards, especially with respect to complex or new types of transactions, could have a material adverse affect on the Company s future revenues and operating results.

Allowance for Doubtful Accounts

The Company s accounts receivable go through a collection process that is based on the age of the invoice and requires attempted contacts with customers at specified intervals and assistance from other personnel within the Company who have a relationship with the customer. The Company writes off accounts to its allowance when the Company has determined that collection is not likely. The Company believes no significant concentrations of credit risk existed at March 31, 2009. Receivables from customers are generally unsecured.

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The Company maintains an allowance for doubtful accounts based on historical collections performance and specific collection issues. If actual bad debts differ from the reserves calculated, the Company records an adjustment to bad debt expense in the period in which the difference occurs. Such adjustment could result in additional charges to the Company s results of operations.

Intangible Assets

The Company s intangible assets were recorded as a result of the Company s acquisitions and represent acquired technology, customer base and trademarks. These intangible assets are amortized over the estimated economic life of the asset. The Company periodically evaluates the recoverability of the intangible assets and considers any events or changes in circumstances that would indicate that the carrying amount of an asset may not be recoverable. Any material changes in circumstances, such as large decreases in revenue or the discontinuation of a particular product line, could require future write-downs in the Company s intangibles assets and could have a material adverse impact on the Company s operating results for the periods in which such write-downs occur.

Goodwill

The Company s goodwill was recorded as a result of the Company s acquisitions. In accordance with SFAS No. 141, Business Combinations, the Company has recorded these acquisitions using the purchase method of accounting. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, the Company annually performs an impairment review of its recorded goodwill, and in 2008 determined that no impairment of goodwill existed because the estimated fair value of each reporting unit exceeded its carrying amount. The Company tests its recorded goodwill for impairment on an annual basis, or more often if indicators of potential impairment exist, by determining if the carrying value of each reporting unit exceeds its estimated fair value. Factors that could trigger an interim impairment test include, but are not limited to, underperformance relative to historical or projected future operating results, significant changes in the manner of use of the acquired assets or the Company s overall business, significant negative industry or economic trends and a sustained period where market capitalization, plus an appropriate control premium, is less than stockholder equity. Future impairment reviews may require write-downs in the Company s goodwill and could have a material adverse impact on the Company s operating results for the periods in which such write-downs occur.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123-R). The Company adopted the provisions of SFAS 123-R in the first quarter of 2006. Under the fair value recognition provisions of this statement, stock-based compensation expense is measured at the grant date based on the value of the award and is expensed ratably over the vesting period. Determining the fair value of stock options at the grant date requires judgment, including estimating expected dividends, volatility, terms and estimating the amount of share-based awards that are expected to be forfeited. If actual forfeiture rates differ significantly from the estimate, stock-based compensation expense and the Company s results of operations could be materially impacted. Beginning in 2006, the Company changed its previous practice of predominantly granting stock options to employees, and began granting primarily restricted stock as an alternative. Compensation expense for restricted stock is based on the fair market value of the restricted stock on its grant date, and is expensed ratably over the vesting period.

Income Taxes

Income taxes are determined under guidelines prescribed by SFAS No. 109, Accounting for Income Taxes (SFAS 109). Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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The Company regularly reviews the deferred tax assets for recoverability and has established a valuation allowance when it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. The Company assesses the recoverability of the deferred tax assets and the need for a valuation allowance on an ongoing basis. In making this assessment, the Company is required to consider all available positive and negative evidence to determine whether, based on such evidence, it is more likely than not that some portion, or all, of the net deferred assets will be realized in future periods.

During the year ended December 31, 2007, the Company determined, primarily based on operating income during recent years and anticipated operating income and cash flows for future periods, that it is more likely than not that certain foreign deferred tax assets will be realized in the future and accordingly, it was appropriate to release the valuation allowance recorded against those deferred tax assets. As a result, the Company released certain valuation allowances related to the United Kingdom, the Netherlands, Germany, Canada, Singapore, Hong Kong, and other foreign jurisdictions resulting in a non-cash income tax benefit to net income, as well as a credit to goodwill as some of the deferred tax assets existed at the date of Scala s acquisition. The Company intends to maintain a valuation allowance for the remaining foreign deferred tax assets until sufficient positive evidence exists to support its reversal. The remaining valuation allowance will continue to be evaluated over future quarters.

Future releases of the valuation allowance related to the Scala and NSB acquisitions will be accounted for as a reduction in income tax expense pursuant to SFAS No. 141 (revised 2007), Business Combinations, or SFAS No. 141(R). Effective January 1, 2009, SFAS 141(R) provides that any reduction to the valuation allowance established in purchase accounting is to be accounted for as a reduction in income tax expense.

The Company is subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. Effective January 1, 2007, the Company adopted Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109, Accounting for Income Taxes. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement.

Although the Company believes it has adequately reserved for its uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. The Company adjusts these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest.

During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Company recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Company s belief that its tax return positions are supportable, the Company believes that certain positions may not be fully sustained upon review by tax authorities. The Company believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

U.S. income taxes were not provided for on unremitted earnings from certain non-U.S. subsidiaries. Those unremitted earnings are considered to be indefinitely reinvested in accordance with Accounting Principles Board (APB) Opinion 23.

New Accounting Pronouncements

For new accounting pronouncements see Note 14 in Notes to Unaudited Condensed Consolidated Financial Statements.

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Acquisition

NSB Retail Systems PLC

On February 7, 2008, the Company completed its acquisition of NSB Retail Systems PLC (NSB). NSB designs, develops, markets and supports store and merchandising solutions to retailers of apparel, footwear and specialty merchandise. The acquisition of NSB provides an expanded portfolio of products and services for large and mid-sized specialty retailers and department stores, as well as a fully hosted, managed service offering designed for smaller retailers who are interested in rapid implementation via an on-demand versus on-premise offering.

Pursuant to the terms of the acquisition agreement, shareholders of NSB received £0.38 in cash for each NSB ordinary share. The value of the fully diluted share capital of NSB was approximately $311.8 million, not including transaction costs, based on the exchange rates in effect at the time the U.S. dollars were converted to pounds sterling for purposes of the transaction. The consideration payable under the agreement was funded by the Company with approximately $161.0 million in existing cash balances, with the balance of the consideration being funded by drawing from funds available pursuant to the 2007 credit facility (Note 8 in Notes to Consolidated Financial Statements).

The total purchase price for NSB is shown below (*in thousands*):

Cash	$ 311,845
Transaction costs	6,449
Total purchase price	$ 318,294

The acquisition of NSB is accounted for as a purchase business combination as defined in SFAS No. 141, Business Combinations. Under the purchase method of accounting, the purchase price was allocated to NSB s tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of February 7, 2008, with any excess being ascribed to goodwill. Management is primarily responsible for determining the fair values of these assets. The fair value of the assets acquired and liabilities assumed represent management s estimate of fair values. The Company adjusted goodwill by $14.2 million since the original allocation on February 7, 2008, primarily related to finalizing the fair value of land and buildings which resulted in an increase in property and equipment of $4.1 million, and a reduction to deferred taxes of $16.6 million. See Note 4 in Notes to the Consolidated Financial Statements for a discussion of goodwill and intangibles acquired.

The following table summarizes the allocation of the purchase price (*in thousands*):

Fair value of tangible assets acquired:	
Cash and cash equivalents	$ 33,181
Accounts receivable	18,274
Inventory	1,196
Property and equipment	16,038
Prepaid and other assets	4,720
Deferred tax assets	2,047
Total tangible assets acquired	75,456
Acquired technology	58,700
Acquired in-process research and development	200
Customer base	39,300
Trade name	3,500
Goodwill	198,240
Accounts payable and accrued expenses	(24,221)
Deferred revenue	(17,328)
Other long-term liabilities	(2,264)
Deferred tax liabilities	(13,289)

Net assets acquired	$ 318,294

In connection with the acquisition, the Company formulated a restructuring plan for the NSB operations. As a result, the Company recorded a liability of $4.5 million for the costs related to involuntary employee terminations. This liability was included in the allocation of the purchase price in accordance with SFAS No. 141, Business Combinations and EITF Issue No. 95-3 Recognition of Liabilities in Connection with a Purchase Business Combination. Execution of the restructuring plan was completed as of December 31, 2008.

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Included in the Company s operating results for the three months ended March 31, 2008 is a charge of $0.2 million for the acquired in-process research and development projects related to the NSB acquisition. The in-process research and development projects arose from new products that were under development at the date of the acquisition and were expected to eventually lead to new products but had not yet established technological feasibility and for which no future alternative use was identified. The valuation of the in-process research and development projects was based upon the discounted expected future cash flows of the products over the products expected life, reflecting the estimated stage of completion of the projects and the estimate of the costs to complete the projects.

Restructuring Charges

Through the first three months of 2009, the Company recorded restructuring charges of $1.4 million, consisting primarily of severance costs related to management severance.

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Results of Operations

The following table summarizes certain aspects of the Company s results of operations for the three months ended March 31, 2009, compared to the three months ended March 31, 2008 (*in millions, except percentages*):

	Three Months Ended March 31,			
	2009	2008	Change $	Change %
Revenues				
License	$ 13.2	$ 18.5	$ (5.3)	(28.8)%
Consulting	31.5	31.4	0.1	0.2%
Maintenance	46.8	46.1	0.7	1.5%
Hardware and other	7.2	6.2	1.0	16.8%
Total revenues	98.7	102.2	(3.5)	(3.5)%
Gross profit %				
License	81.6%	80.7%		
Consulting	16.0%	(1.8)%		
Maintenance	76.6%	74.9%		
Hardware and other	11.4%	(4.2)%		
Amortization of intangible assets	$ 8.4	$ 7.1	$ 1.3	18.9%
% of total revenues	8.5%	6.9%		
Gross profit	$ 44.1	$ 41.6	$ 2.5	6.0%
% of revenues	44.7%	40.7%		
Sales and marketing	$ 18.1	$ 21.4	$ (3.3)	(15.4)%
% of revenues	18.3%	20.9%		
Software development	$ 12.4	$ 13.0	$ (0.6)	(4.8)%
% of revenues	12.6%	12.7%		
General and administrative	$ 14.2	$ 12.0	$ 2.2	18.7%
% of revenues	14.4%	11.7%		
In-process research and development	$	$ 0.2	$ (0.2)	100.0%
% of revenues	0.0%	0.2%		
Restructuring charge	$ 1.4	$ 4.1	$ (2.7)	(65.4)%
% of revenues	1.4%	4.0%		
Interest expense	$ 6.0	$ 4.6	$ 1.4	31.1%
% of revenues	6.1%	4.5%		
Interest and other income (expense), net	$ (0.2)	$ 0.8	$ (1.0)	(119.7)%
% of revenues	(0.2)%	0.8%		
Income tax benefit	$ (6.5)	$ (4.7)	$ (1.8)	38.1%
Effective tax rate	80.0%	(37.1)%		
Net income	$ (1.6)	$ (8.0)	$ 6.4	(79.7)%
% of revenues	(1.6)%	(7.9)%		

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Revenue

The decrease in license revenues for the three months ended March 31, 2009, compared to the same period in 2008, is due primarily to the downturn of the overall economic environment and lengthening sales cycles. Due to the volatility surrounding the financial markets, the uncertainty regarding the state of the economy and tightening of the credit market, some customers were reluctant to sign new deals, and many retailers are implementing projects on a staged basis where they purchase and roll out smaller parts of their total solution. In addition, the Company s license revenues were negatively impacted due to the strengthening of the United States dollar relative to other major currencies. License revenues for the three months ended March 31, 2009, included two sales greater than $0.5 million, of which one was greater than $1.0 million. License revenues for the three months ended March 31, 2008, included three deals greater than $0.5 million, none of which were greater than $1.0 million.